

WATER/SNR/TAC/LTR:jlj**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA****WATER DIVISION
Water Advisory Branch****RESOLUTION W-4311
December 11, 2001****R E S O L U T I O N****(RES. W-4311), LITTLE BEAR WATER COMPANY, INC. (LBWC).
ORDER AUTHORIZING A GENERAL RATE INCREASE (GRC)
PRODUCING ADDITIONAL ANNUAL REVENUE OF \$59,400
OR 22.2% IN 2001.**

SUMMARY

This resolution grants a general rate increase in gross annual revenues of \$59,400 or 22.2% for Test Year 2001. This increase will provide a 12.25% rate of return on a rate base of \$476,508 in the test year.

BACKGROUND

LBWC requested authority under Section VI of General Order 96-A and Section 454 of the Public Utilities Code to increase rates for water service to produce additional revenues of \$68,553 or 25.6% in 2001. LBWC's request shows 2001 gross revenue of \$267,647 at present rates increasing to \$336,200 at proposed rates to produce a rate of return on rate base of 12.25%.

LBWC currently serves 628 metered-rate customers in Pine Canyon and vicinity, located approximately 3 miles southwest of King City, Monterey County. The current rates were established on February 22, 2001, pursuant to Res. W-4248, which authorized recovery of expenses booked in LBWC's Catastrophic Event Memorandum Account. LBWC's last general rate increase became effective on April 10, 1996, pursuant to Res. W-3981, which authorized an increase of \$106,361, or 75.1% and a rate of return of 13.25%.

DISCUSSION

LBWC and Little Bear Sewer Company (LBSC) are two distinct entities that are owned by the same interest. While distinct, they have the benefit of sharing

some expenses (e.g. salaries, transportation, insurance, etc.). This allows the customers of both companies to pay a smaller percentage of some of the expenses than had each one of the companies been separate. Expenses are allocated to each utility based upon the estimated time spent on each utility or on proportionate dollars expensed. This resolution deals specifically with the rate increase request of LBWC. LBSC's request is dealt with in a separate resolution.

In February 2001, the staff of the Water Advisory Branch (Branch), under the provisions of the Branch's outreach program, initially aided LBWC in filing a general rate increase. LBWC then hired a consultant to complete the filing and on July 3, 2001, Branch accepted the workpapers filed by LBWC. The Branch made an independent analysis of LBWC's summary of earnings and issued its report on October 1, 2001. Appendix A shows LBWC's and the Branch's estimates of the summary of earnings at present, requested, and recommended rates. Appendix A also shows differences between LBWC's and the Branch's estimates in operating revenues, expenses, and rate base.

LBWC was informed of the Branch's differing views of revenues, expenses and rate base and it agrees with the Branch's findings.

LBWC based its estimate for 2001 on energy usage for 2000 (a 12-month period), with an adjustment for projected customer consumption. LBWC applied Pacific Gas and Electric Company's current tariff rates to its estimates. Staff accepts LBWC's estimated usage and notes a minor mathematical error in rates that results in differences between staff and LBWC's estimates. LBWC estimates \$44,090 for total purchased power for 2001. Staff estimates \$46,752.

Staff is recommending a rate of return of 12.25%. This is lower than the midpoint of the standard rate of return range (12.00 to 13.00%), recommended by the Water Division's Audit & Compliance Branch, for Class C water utilities. This is the rate of return requested in LBWC's original workpapers. Staff recommends that the otherwise allowable rate of 12.5% be adopted for future earnings tests and rate base offsets.

LBWC submitted an accounting of plant-in-service in order to update plant accounts since the last GRC. Branch accepted those estimates but differs with the proposed improvements for the test year. Branch has more recent information on work done in 2001. LBWC is in the process of installing double throw switch

boxes for the generator at eight pump stations. It is likely that this project will be completed next year, so the Branch believes it to be reasonable to allow a rate base offset for these plant investments when they have been completed and are in full operation.

LBWC has also not been recording retirements for items replaced and is overstating its plant-in-service accounts. While these overstatements are balanced by the depreciation reserve account, the accounts do not accurately reflect the actual items in plant. When retirements are booked, both plant-in-service and accrued depreciation are reduced by the depreciated value of the facilities being retired. This results in no change in rate base. Branch recommends that LBWC be ordered to correct the accounts to accurately reflect current plant-in-service.

LBWC files Annual Reports regularly and there are no other outstanding Commission orders. LBWC's current rate structure consists of two schedules: Schedules Nos. 1-LC, Metered Service, and 1-UC, Metered Service. Schedule 1-LC is service to Lower Canyon and Schedule 1-UC is service to Upper Canyon customers. The rates proposed by the Branch are shown in Appendix B.

At the Branch's recommended rates shown in Appendix B, the bill for a typical residential customer in the Lower Canyon would increase from \$32.17 to \$39.33 per month. The bill for a typical residential customer in the Upper Canyon would increase from \$51.94 to \$63.49 per month. A comparison of customer bills at present and recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

LBWC should update the following tariff sheets: Rules 5, 7, 8, 9, 10 and 11, Forms 2 and 3, and Schedule LC.

NOTICE AND PUBLIC MEETING

LBWC mailed a notice of the proposed rate increase to each customer on July 2, 2001. Four letters were received by Staff, which indicated objection to the magnitude of the proposed rate increase. From July 1, 2000 to July 1, 2001, the Consumer Affairs Branch of the Public Affairs Division received no complaints regarding LBWC.

On July 19, 2001, Staff held an informal public meeting in LBWC's service area. Five customers attended. Ms. Tatiana Cherkas, Senior Utilities Engineer, explained the Commission rate-setting procedures. The balance of the meeting consisted of comments, questions, and discussion among the participants.

FINDINGS

1. The Branch's recommended summary of earnings (Appendix A) is reasonable and should be adopted.
2. The rates proposed by the Branch (Appendix B) are reasonable and should be adopted.
3. The quantities (Appendix D) used in preparation of this resolution are reasonable and should be adopted.
4. The rate increase proposed by the Branch is justified and the resulting rates are just and reasonable.
5. LBWC should be ordered to update its utility plant-in-service and accumulated depreciation reserve accounts to accurately reflect the current amounts in each account.
6. LBWC should be ordered to update its tariff sheets: Rules 5, 7, 8, 9, 10 and 11, Forms 2 and 3, and Schedule LC.
7. LBWC is in the process of installing double throw switch boxes for the generator at eight pump stations. It is likely that this project will be completed next year, so the Branch believes it to be reasonable to allow a rate base offset for these plant investments when they have been completed and are in full operation. LBWC should be authorized to file an advice letter to recover reasonable costs associated with the completion of these plant additions. A 12.5% rate of return should apply.

THEREFORE IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Little Bear Water Company, Inc. to file an advice letter incorporating the summary of earnings and the revised schedules attached to this resolution as Appendices A and B respectively, and concurrently cancel its presently effective Schedules Nos. 1-LC, Metered Service, and 1-UC, Metered Service. The filing shall comply with General Order 96-A. The effective date of the revised schedules shall be five days after the date of filing.
2. Little Bear Water Company, Inc. is ordered to update its utility plant-in-service and accumulated depreciation reserve accounts to accurately reflect the current amounts in each account.
3. Little Bear Water Company, Inc. is ordered to update its tariff sheets: Rules 5, 7, 8, 9, 10, and 11, Forms 2 and 3, and Schedule LC.
4. Little Bear Water Company, Inc. is authorized to file an advice letter rate increase request to recover reasonable costs associated with the installation of double throw switch boxes for the generator at eight pump stations. A 12.5% rate of return should apply.
5. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on December 11, 2001; the following Commissioners voting favorably thereon:

WESLEY M. FRANKLIN
Executive Director

Appendix A
Little Bear Water Company
Summary of Earnings
Test Year 2001

Description	LBWC	Estimated	Branch	Estimated	Branch
	Present Rates	Requested Rates	Present Rates	Requested Rates	Recommended Rates
OPERATING REVENUES					
Metered Water Revenues	267,647	336,200	267,647	336,200	327,045
TOTAL REVENUES	267,647	336,200	267,647	336,200	327,045
OPERATING EXPENSES					
Purchased Power	44,090	44,090	46,752	46,752	46,752
Other Volume Related Exp.	870	870	870	870	870
Employee Labor	32,448	32,448	32,448	32,448	32,448
Materials	4,486	4,486	4,486	4,486	4,486
Contract Work – General Exp.	7,626	7,626	7,626	7,626	7,626
Contract Work – Water Testing	2,389	2,389	2,389	2,389	2,389
Transportation Expenses	4,817	4,817	3,766	3,766	3,766
Other Plant Maintenance Exp.	1,286	1,286	1,286	1,286	1,286
Office Salaries	24,024	24,024	24,024	24,024	24,024
Management Salaries	28,049	28,049	28,049	28,049	28,049
Officers Salaries	6,048	6,048	0	0	0
Employee Pensions and Benefits	8,452	8,452	8,452	8,452	8,452
Uncollectible Accounts Exp.	2,676	3,362	830	1,042	1,014
Office Services and Rentals	6,200	6,200	6,200	6,200	6,200
Office Supplies and Exp.	5,383	5,383	5,383	5,383	5,383
Professional Services	4,315	4,315	4,315	4,315	4,315
Insurance	11,968	11,968	11,968	11,968	11,968
Regulatory Commission Exp.	1,520	1,520	1,520	1,520	1,520
General Expenses	1,401	1,401	1,401	1,401	1,401
SUBTOTAL	198,048	198,734	191,765	191,977	191,949
Depreciation Expense	20,433	20,433	20,373	20,373	20,373
Taxes Other Than Income Taxes	14,731	14,731	13,836	13,836	13,836
Income Taxes & Franchise Fee	14,498	43,610	16,113	46,475	42,522
TOTAL DEDUCTIONS	247,710	277,508	242,087	272,661	268,680
NET REVENUE	19,937	58,692	25,560	63,539	58,365
RATE BASE					
Average Plant	764,795	764,795	762,786	762,786	762,786
Average Accum. Depreciation	230,107	230,107	230,077	230,077	230,077
Net Plant	534,688	534,688	532,709	532,709	532,709
Less: Contributions	60,443	60,443	60,443	60,443	60,443
Advances	11,754	11,754	11,754	11,754	11,754
Plus: Working Cash	16,504	16,561	15,980	15,998	15,996
RATE BASE	478,995	479,052	476,492	476,510	476,508
RATE OF RETURN	4.16%	12.25%	5.36%	13.33%	12.25%
(END OF APPENDIX A)					

Appendix B
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Little Bear Water Company
Schedule No. 1-LC
METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished in Little Bear District (Lower Canyon).

TERRITORY

Portions of Pine Canyon and vicinity, located 3 miles southwest of King City, Monterey County.

RATES

Monthly Quantity Rate:

All water, per 100 cu. ft.\$ 1.052 (I)

Service Charge:

Per Meter
Per Month

For	5/8 x 3/4-inch meters	\$ 18.29	(I)
For	3/4-inch meters	\$ 18.29	
For	1-inch meters	\$ 30.55	
For	1-1/2-inch meters	\$ 60.91	
For	2-inch meters	\$ 97.49	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

(D)

1. All bills are subject to the Reimbursement fee set forth in Schedule No. UF.

Appendix B
(Page 2 of 2)

Little Bear Water Company
Schedule No. 1-UC
METERED SERVICE

APPLICABILITY

Applicable to all metered water service furnished in Little Bear District (Upper Canyon).

TERRITORY

Portions of Pine Canyon and vicinity, located 3 miles southwest of King City, Monterey County.

RATES

Monthly Quantity Rate:

All water, per 100 cu. ft.	\$ 1.468	(I)
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Service Charge:

Per Meter
Per Month

For	5/8 x 3/4-inch meters	\$ 29.72	(I)
For	3/4-inch meters	\$ 29.72	
For	1-inch meters	\$ 49.64	
For	1-1/2-inch meters	\$ 98.97	
For	2-inch meters	\$158.42	(I)

The Service Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the monthly charge computed at the Quantity Rate.

SPECIAL CONDITIONS

(D)

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(END OF APPENDIX B)

**Appendix C
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Little Bear Water Company

**Comparison of Rates
Test Year 2001**

UPPER CANYON

		<u>Per Service Connection Per Month</u>		
		<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Percent Increase</u>
Service Charge:				
For	5/8 x 3/4-inch meters	\$ 25.10	\$ 29.72	18.4%
For	3/4-inch meters	25.10	29.72	18.4
For	1-inch meters	41.90	49.64	18.5
For	1-1/2-inch meters	83.60	98.97	18.4
For	2-inch meters	133.80	158.42	18.4
Quantity Charge:				
All use, per 100 cu. ft. . . .		\$1.167	\$1.468	25.8%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage 100 cu. ft.</u>	<u>Present Rates</u>	<u>Recommended Rates</u>	<u>Amount Increase</u>	<u>Percent Increase</u>
0	\$ 25.10	\$ 29.72	\$ 4.62	18.4%
5	30.94	37.06	6.13	19.8
10	36.77	44.40	7.63	20.8
20	48.44	59.09	10.65	22.0
23 (avg.)	51.94	63.49	11.55	22.2
30	60.11	73.77	13.66	22.7
40	71.78	88.45	16.67	23.2
50	83.45	103.14	19.69	23.6

Appendix C
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Little Bear Water Company

Comparison of Rates
Test Year 2001

LOWER CANYON

		<u>Per Service Connection Per Month</u>		
		<u>Present</u>	<u>Recommended</u>	<u>Percent</u>
		<u>Rates</u>	<u>Rates</u>	<u>Increase</u>
Service Charge:				
For	5/8 x 3/4-inch meters	\$ 15.25	\$ 18.29	19.9%
For	3/4-inch meters	15.25	18.29	19.9
For	1-inch meters	25.45	30.55	20.0
For	1-1/2-inch meters	50.80	60.91	19.9
For	2-inch meters	81.30	97.49	19.9
Quantity Charge:				
	All use, per 100 cu. ft. . . .	\$0.846	\$1.052	24.3%

A monthly bill comparison for a customer with a 5/8 x 3/4-inch meter is shown below:

<u>Usage</u> <u>100 cu. ft.</u>	<u>Present</u>	<u>Recommended</u>	<u>Amount</u>	<u>Percent</u>
	<u>Rates</u>	<u>Rates</u>	<u>Increase</u>	<u>Increase</u>
0	\$ 15.25	\$ 18.29	\$ 3.04	19.9%
5	19.48	23.55	4.07	20.9
10	23.71	28.81	5.10	21.5
20 (avg.)	32.17	39.33	7.16	22.2
30	40.63	49.84	9.21	22.7
40	49.09	60.36	11.27	23.0
50	57.55	70.88	13.33	23.2

(END OF APPENDIX C)

Appendix D
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Little Bear Water Company

Recommended Quantities - Test Year 2001

1. Federal Tax Rate: 15% for 1st \$50,000 of taxable income
25% for next \$25,000 of taxable income
34% for next \$25,000 of taxable income
39% for next \$235,000 of taxable income

2. State Tax Rate: 8.84%

3. Monterey County Franchise Tax Rate: 2%

4. Service Connections:

	<u>Lower Canyon</u>	<u>Upper Canyon</u>
For 5/8 x 3/4-inch meter	540	70
For 3/4-inch meter	0	15
For 1-inch meter	5	4
For 1-1/2-inch meter	2	0
For 2-inch meter	1	0
TOTAL	548	89

5. Metered water sales used to design rates: Lower Canyon: 128,712 Ccf
Upper Canyon: 24,508 Ccf

6. Property Taxes: \$5,916
1.3% tax rate

7. Payroll Taxes: \$7,920

8. Contract Work - Water Testing: \$2,389

Appendix D
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Little Bear Water Company

Recommended Quantities - Test Year 2001

9. Purchased Power

Pacific Gas and Electric Company, Schedule No. A-1 & A-1P,
Small General Service, Effective May 6, 2001

Quantity Charge:

kWh used - total: 19,304
kWh used - summer: 11,779
\$/kWh - summer: \$0.14870
kWh used - winter: 7,525
\$/kWh - winter: \$0.10193

Service Charge:

\$/pump/mo. - single-phase: \$8.10
\$/pump/mo. - polyphase: \$12.00
of pumps - single phase: 2
of pumps - polyphase: 1

Pacific Gas and Electric Company, Schedule No. A-6 & A-6P,
Small General Time-Of-Use Service, Effective August 8, 2000

Quantity Charge:

kWh used - total: 284,279
kWh used - summer: 193,849
kWh used - summer peak: 29,572
\$/kWh - summer peak: \$0.23258
kWh used - summer off-peak: 116,637
\$/kWh - summer off-peak: \$0.05618
kWh used - summer part-peak: 47,640
\$/kWh - summer part-peak: \$0.10288
kWh used - winter: 90,430
kWh used - winter off-peak: 57,890
\$/kWh - winter off-peak: \$0.07169
kWh used - winter part-peak: 32,540
\$/kWh - winter part-peak: \$0.11562

Service Charge:

\$/pump/mo. - single-phase: \$8.10
\$/pump/mo. - polyphase: \$12.00
of pumps - single phase: 1

of pumps - polyphase: 3

Appendix D
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Little Bear Water Company
Recommended Quantities - Test Year 2001

9. Purchased Power (Cont.)

Pacific Gas and Electric Company, Schedule No. E-EPS,
Energy Procurement Surcharges, Effective June 1, 2001

Quantity Charge:

All electric service customers: \$0.01000/kWh

Schedule A-1 & A-1P customers:

\$0.06140/kWh – summer

\$0.02838/kWh – winter

Schedule A-6 & A-6P customers:

\$0.10064/kWh – summer on-peak

\$0.04551/kWh – summer part-peak

\$0.03551/kWh – summer off-peak

\$0.04551/kWh – winter part-peak

\$0.03551/kWh – winter off-peak

10. Adopted Tax Calculations – Total for both LBWC and LBSC

Line		State	Federal
<u>No.</u>	<u>Item</u>	<u>Tax</u>	<u>Tax</u>
1.	Operating Revenues	\$528,450	\$528,450
2.	Expenses	\$298,741	\$298,741
3.	Taxes Other Than Income Taxes	\$ 23,626	\$ 23,626
4.	Depreciation	\$ 31,733	\$ 31,733
5.	Interest	\$ 5,651	\$ 5,651
6.	State Taxable Income	\$168,699	
7.	State Income Tax (@8.84% or \$800 minimum)	\$ 14,913	
8.	Federal Taxable Income		\$153,786
9.	Federal Income Tax (@15%)		\$ 43,226
10.	TOTAL STATE & FEDERAL INCOME TAX	\$58,139	
11.	Monterey County Franchise Tax (@2%)	\$10,569	
12.	TOTAL INCOME TAXES	\$68,708	

INCOME TAX ALLOCATED TO LITTLE BEAR WATER COMPANY: \$42,522

INCOME TAX ALLOCATED TO LITTLE BEAR SEWER COMPANY: \$26,186

Resolution W-4311
LBWC/SNR/TAC/LTR: jlj

DRAFT

December 11, 2001

(END OF APPENDIX D)